

[REDACTED]

CERTIFIED

[REDACTED]

OCT 15 1984

Dear Applicant:

We have considered your application for recognition of exemption from Federal Income Tax under Section 501(c)(7) of the Internal Revenue Code.

The information you submitted on the Form 1024, Application for Recognition of Exemption under Section 501(c) states your organization was formed in [REDACTED].

Your purposes, as stated in the Form 1024 are quoted as follows:
"Purpose: Members are assisted with a cash gift when ill. Families are assisted with a cash gift when a family member dies. Members pay a fee - no fundraising is conducted." In your undated Rules and By-Laws which constitute your only organizing document you are more specific: "The purpose of the organization is to eliminate the canvassing the neighborhood for funds when bereavement comes to a member of the organization or a member's family. A member of the family is herein described as a father, mother, sister or children or brother."

You further state that members pay fees of [REDACTED] dollars per year. The monies then accumulated are spent on flower sprays, food for funeral dinners, plants, cards, and cash gifts.

Section 501(c)(7) of the Code provides for exemption from Federal Income Tax of clubs organized and operated exclusively for pleasure, recreation, and other nonproftable purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that Section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation and other nonproftable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments.

[REDACTED]

In Revenue Ruling 63-190, 1963-2 C.B. 212, it was held that a nonprofit organization (not operated under the lodge system) that maintains a social club for members and also provides sick and death benefits for their members and their beneficiaries, does not qualify for exemption from Federal income tax either as a social club under Section 501(c)(7) of the Internal Revenue Code, a civic league under Section 501(c)(4) of the Internal Revenue Code, or a fraternal beneficiary society under Section 501(c)(6) of the Internal Revenue Code.

We have concluded that your club is operated in the personal interests of a few individuals; that social features are not a material purpose of the club but are subordinate and merely incidental to the active furtherance of a predominant purpose to engage in the provision of sick and death benefits to members and their families. As cash, flowers, food is being distributed to members this constitutes insurance to members in the form of guaranteed benefits in the event of sickness or death. These activities do not constitute social or recreational activities, but rather promote, in essence, a type of insurance policy.

Accordingly, we hold that you are not entitled to exemption from Federal income tax as an organization described in Section 501(c)(7) of the Code. Accordingly, you are required to file Federal income tax returns on Form 1120.

If you do not agree with these conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after you have submitted your brief to the Chicago District Office and we have had an opportunity to consider the brief and it appears that the conclusions are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Procedures for Adverse Determinations, which explains in detail your rights and procedures.

If you agree with this determination please sign and return the enclosed Form 6018.

Sincerely yours,

[REDACTED]
District Director